



8800 NW 62ND AVENUE  
PO BOX 6200  
JOHNSTON, IOWA 50131-6200  
515-286-4300 • 800-532-1423  
515-280-4140 <sup>FAX</sup>  
WWW.IOWABANKERS.COM

February 17, 2011

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, D.C. 20551

Re: Proposed Debit Card Interchange Fees and Routing Rule, Docket No. R-1404 and RIN No. 7100 AD63

Dear Ms. Johnson:

The Iowa Bankers Association (IBA) appreciates the opportunity to comment on the Federal Reserve Board's proposed "Debit Card Interchange Fees and Routing" rule. The Iowa Bankers Association represents 363 Iowa banks and thrifts, 96% of all institutions serving Iowans.

It is rare in the history of banking that a law and resulting regulation so impactful has been advanced with so little study or deliberation in its making. It has become abundantly clear the net impact of the Durbin amendment will be a cost shift from retailers to consumers. And, although the Board must follow the constructs of the Dodd-Frank Act, it is allowed some regulatory discretion. That discretion should be maximized to limit the negative impact on bank customers and on the viability of community banks.

Iowa is not unlike the rest of the country in that most financial institutions will see their debit card revenue reduced by 70 to 85 percent if the Fed imposes a twelve cent debit interchange cap. Iowa's regional electronic funds transfer network, SHAZAM, estimates the revenue impact for Iowa institutions to be a loss of \$43 million. This approximates ten percent of annual industry earnings. And, it equates to about one year's worth of contributions Iowa banks make to charitable, community and economic development organizations. This kind of change doesn't happen in a vacuum. Other bank spending, pricing and product features will be impacted.

Introducing federal government price controls in the traditionally free-market payments environment will only serve to increase consumer prices and reduce benefits. A recent survey of the Independent Community Bankers of America found ninety-three percent of bankers would be required to charge customers for services that are currently free, should the Federal Reserve proposal move forward unchanged. This will have consequences for those least able to afford it and may result in low and moderate income customers turning to more expensive, less convenient, non-traditional banking services.

In calculating the permissible fee, the Federal Reserve Board should include: network fees; the cost of inquiries and disputes; fraud losses and fraud prevention costs; fixed costs, including capital investments; and a reasonable profit. A fee that does not take into account these factors is not a "reasonable" fee as mandated by the statute.

Ms. Jennifer Johnson  
Page 2  
February 17, 2011

The legislation's effort to carve out community banks (under \$10 billion in assets) is also unworkable. Economic forces will force community banks to adopt the same Board-determined price level or risk losing market share to larger institutions. A price differential would give merchants a strong incentive to steer customers to use lower cost networks or cards of larger institutions. It is not hard to envision partnering opportunities here between the largest retailers and banks.

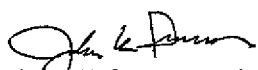
Equally important when considering this issue are several merchant routing provisions, which apply to all debit card issuers regardless of size. Merchants will have control over transaction routing by being empowered to route the transaction to any network enabled by the card issuing financial institution. And, card issuing financial institutions and networks would be prohibited from restricting the merchant's ability to encourage or discourage a particular method of authorization (PIN vs. signature). These provisions will serve to move debit volume to the low-cost route, impacting all debit card issuers.

The Board has asked for input on two separate routing alternatives as well. We believe of the two options listed, Alternative A, which requires at least two unaffiliated networks per debit card, is preferable. This option could soften the pricing impact on community banks and reduce issuer costs of having to join multiple networks.

In summary, the Iowa Bankers Association opposes capping interchange fees at seven or twelve cents. It will result in \$43 million in costs transferred to Iowa financial consumers from primarily large retailers. At minimum, the Board should expand upon the cost factors included in establishing this rate and utilize its payments expertise to caution Congress on the wisdom of price controls in a market offering tremendous consumer and retailer benefits.

Thank you for the opportunity to comment on this significant proposal.

Sincerely,

  
John K. Sorensen, CAE  
President and CEO

JKS/ml

Cc: Senator Charles E. Grassley  
Senator Tom Harkin  
Congressman Leonard Boswell  
Congressman Tom Latham  
Congressman Steve King  
Congressman Bruce Braley  
Congressman Dave Loebsack